

Message Text

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ACTION AID-20

INFO OCT-01 NEA-14 ISO-00 IGA-02 AGR-20 DOTE-00 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01

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E.O. 11652: N/A

TAGS: EAID, EFIN, BG

SUBJ: MACDONALD DISCUSSIONS WITH BDG RE DEBT

1. DURING COURSE HIS VISIT TO DACCA, I ARRANGED AND ACCOMPANIED MACDONALD TO MEETINGS WITH TAJUDDIN AHMED (FINANCE MINISTER), NURUL ISLAM (DEP CHAIRMAN PLANNING COMMISSION), AND PRIME MIN.

2. FOLLOWING WERE COMMON POINTS MADE BY MACDONALD IN EACH MEETING:

A. THE CREDITOR COUNTRIES HAVE MADE SUBSTANTIAL PROGRESS IN NEGOTIATIONS WITH THE GOVERNMENT OF PAKISTAN RE ITS CONTINUED SERVICING BULK OF DEBT WHICH RESULTED FROM PRIOR ASSISTANCE WHICH FLOWED TO AND BENEFITED EAST PAKISTAN. IN THE US CASE, SERVICING OF APPROXIMATELY 80 PCT OF VALUE ALL FORMER ASSISTANCE TO EAST PAKISTAN IS EXPECTED TO BE ACCEPTED IN PERPETUITY BY GOP.

B. IT IS IMPERATIVE REACH RAPID AGREEMENT WITH BANGLADESH RE ASSUMPTION LIABILITY FOR PROJECTS PROPOSED BY USG. TO THAT END, HOPE FOR AGREEMENT IN PRINCIPLE PRIOR MACDONALD DEPARTURE OR SHORTLY THEREAFTER.

C. TERMS ON WHICH BDG MIGHT ASSUME LIABILITY WILL BE MOST GENEROUS. SEVENTY-THREE (73) PCT GRANT ELEMENT ALREADY CONVEYED BDG IS WITHOUT PRECEDENT, BUT WILLING ASCERTAIN IF ANY POSSIBILITIES

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EXIST FOR FURTHER EASING.

D. DEBT SERVICE RELATIVE TO FOREIGN EXCHANGE EARNED WHICH WOULD RESULT FROM ASSUMPTION PROPOSED LIABILITY ALL DONORS' PROJECT LISTS, PLUS SERVICE ON DEBT INCURRED SINCE INDEPENDENCE, WOULD BE UNPRECEDENTEDLY LOW 4 TO 5 PERCENT IN EARLY YEARS.

E. PAKISTAN DELIBERATIONS HAVE BEEN WITHIN CONTEXT CONSORTIUM. THIS HAS HAD GOOD RESULTS FOR BDG SINCE CONSORTIUMS EXERTED STRONG PRESSURE DONORS TO MEET 84 PERCENT GRANT EQUIVALENT PROPOSED BY IBRD.

3. TAJUDDIN DECLINED ENGAGE IN SUBSTANTIVE DISCUSSION THIS SUBJECT, NOTING IT RESPONSIBILITY OF PLANNING COMMISSION. BUT MEETING WAS CORDIAL AND TAJUDDIN'S EXPRESSED EXPECTATION SOLUTION ACCEPTABLE TO ALL CONCERNED WOULD BE REACHED IN TIMELY FASHION.

4. MEETING WITH NURUL ISLAM PROVIDED OPPORTUNITY FOR DETAILED REVIEW USG PROJECT LIST. ISLAM QUESTIONED FOLLOWING CATEGORIES OF PROJECTS: (A) JOINT, (B) ON-GOING BUT NOT PICKED UP, (C) CONSULTING SERVICES/FEASIBILITY STUDIES, AND (D) DISCONTINUED. RE JOINT PROJECTS, DEP CHAIRMAN AND SECRETARY PLANNING COMMISSION (WHO IN ATTENDANCE) WERE IMPRESSED WITH SUPPORTING DOCUMENTATION PREPARED BY CONTROLLER'S OFFICE. DOCUMENTATION FOR THOSE ACTIVITIES WHICH VERIFY OUR EARLIER CLAIMS ON TWO PROJECTS (RAILROAD AND CHALNA ANCHORAGE) WERE TURNED OVER. BELIEVE THAT BDG WILL ACCEPT IN PRINCIPLE ACTIVITIES IN THIS CATEGORY SUBJECT FINAL VERIFICATION OF FIGURES FROM CONTROLLER'S OFFICE. RE ON-GOING BUT NOT PICKED UP PROJECTS, ISLAM MADE PITCH FOR AID FINANCING TO FINISH CHITTAGONG PORT, KARNAFULI THIRD UNIT AND AFSA COTTON MILLS (PICIC LOAN). WHILE NOT THROWING COMPLETELY OUT OF COURT FUTURE FY FUNDING FOR CHITTAGONG PORT AND KARNAFULI, WE WERE NOT ENCOURAGING. SCHWARZWALDER AND REES WILL REVIEW THIS QUESTION WITH PLANNING COMMISSION IN DETAIL WEDNESDAY. RE CONSULTING SERVICES/FEASIBILITY STUDIES, FOLLOWING EXTENSIVE CONTENTION BY PLANNING COMMISSION THAT THESE NOT "VISIBLE" AND BY NATURE SHOULD BE GRANT, ISLAM CONCLUDED BY IMPLYING SOLUTION SATISFACTORY TO US WILL BE FOUND. WE INTERPRET THIS TO MEAN THIS CATEGORY WILL BE ACCEPTED IN TOTALITY. RE CATEGORY D., ISLAM CITED SAWMILL AND SEED POTATO PROJECTS. ACKNOWLEDGING BUT NOT ACCEPTING REASONS UNDERLYING PC ARGUMENTS, MACDONALD COUNTERED BY QUESTIONING HOW MUCH MORE TIME BDG WANTS TO EXPEND IN RELATIVELY MINOR CONSIDERATIONS, SPECIALLY AS SOME VALUE RECEIVED FROM THESE PROJECTS AND PROPOSED LIABILITY DISCOUNTED TO PRESENT LIMITED OFFICIAL USE

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WORTH IS SO SMALL, MACDONALD URGED THAT THESE BE ACCEPTED NOW. DURING MEETING IKLAM ARTICULATED THE PRINCIPLE THAT BDG DID NOT REPEAT NOT WISH DIFFERENTIATE BETWEEN DONORS. MACDONALD STATED HIS AGREEMENT IN PRINCIPLE BUT POINTED OUT CONSISTENT TREATMENT DID NOT CALL FOR UNIFORMITY. HE SAID BDG MUST ALSO TAKE INTO ACCOUNT LARGE SCALE GRANT ASSISTANCE WHICH US HAS PROVIDED AND WEIGH THIS IN ITS CONSIDERATIONS.

5. ALSO IN ISLAM MEETING, MACDONALD STATED THAT ONCE FINAL AGREEMENT REACHED, SINGLE DOCUMENT CONSOLIDATING ALL ACCEPTED DEBT WOULD BE PREPARED RATHER THAN AMENDMENTS TO EACH EXISTING LOAN AGREEMENT.

6. IN MEETING WITH PRIME MINISTER, PM STATED THERE WAS "NO QUESTION ABOUT IT" THAT BD SHOULD ACCEPT, AND HAS ACCEPTED, LIABILITY FOR "VISIBLE" PROJECTS (STRESING WORD VISIBLE) LOCATED IN BANGLADESH. PRIME MINISTER PLACED RESPONSIBILITY FOR RESOLUTION SQUARELY WITH PLANNING COMMISSION (NURUL ISLAM ATTENDED MEETING), MEMCON FOLLOWS COVERING FULL RANGE OF ITEMS DISCUSSED.

7. FOLLOW-UP MEETING (SCHWARZWALDER, REES) WITH SECRETARY PLANNING COMMISSION SCHEDULED WEDNESDAY TO REVIEW OUTSTANDING QUESTIONS. DECONTROL MAY 21, 1975.
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